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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE
APPLICATION OF RIO RICO
UTILITIES, INC., AN ARIZONA
CORPORATION, FOR A
DETERMINATION OF THE FAIR
VALUE OF ITS UTILITY PLANTS
AND PROPERTY AND FOR
INCREASES IN ITS WATER AND
WASTEWATER RATES AND
CHARGES FOR UTILITY SERVICE
BASED THEREON.

DOCKET NO: WS-02676A-12-0196

**INTERVENORS SANTA CRUZ
COUNTY AND SANTA CRUZ
VALLEY UNIFIED SCHOOL
DISTRICT #35**

COMBINED CLOSING BRIEF

Arizona Corporation Commission

DOCKETED

MAY 2 2013



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1 **I. INTRODUCTION**

2 Santa Cruz County and Santa Cruz Valley unified School District #35 were
3 allowed to intervene in these proceedings and participate in the cross examination
4 evidentiary hearing conducted herein. They are pleased now to submit the following as
5 their joint or combined closing brief.

6 **II. RRUI'S APPLICATION SHOULD BE DENIED BECAUSE IT FAILED**
7 **TO COMPLY WITH AAC AND STATUTORY REQUIREMENTS**

8 **A. The Rate Increase Should Be Denied Because the Application Fails to**
9 **Comply With the Rate Increase Filing Requirements of the Arizona**
10 **Administrative Code Title 14 Chapter 2**

11 The Arizona Administrative Code AAC R14-2-103 (B) defines the filing
12 requirements that all utilities must follow when filing an application for a proposed
13 increase in rates or charges. Rio Rico Utilities is a Class B utility as defined by
14 Arizona Administrative Code (AAC) R14-2-103 (A). As such in an application for a
15 proposed increase in rates Class B utilities are required to file G (cost of service)
16 schedules when 1) the utility is in a segment of the utility industry that recognizes cost
17 of service studies as important tools for rate design and 2) costs incurred by the utility
18 are likely to vary significantly from one defined segment of customers to
19 another. (AAC) R-14-2-103. In the instant case RRUI filed a cost of service study in
20 its previous rate case (Tr. p. 411 at line 13) clearly supporting that this utility is in a
21 segment of the utility industry that recognizes cost of service studies as important tools
22 for rate design and acknowledging that costs incurred by the utility are likely to vary
23 significantly from 1 defined segment of customers to another. RRUI remains the same
24 utility in this case as they were in their previous rate case. Therefore, RRUI is required
25 to file G (cost of service) schedules in the instant rate case. Their failure to do so
26 violates the filing requirements of (AAC) R14-2-103(B) and leaves their application
insufficient on its face.

27 The Arizona Administrative Code ("AAC") serves to set the parameters under
28 which regulated utilities are permitted to request rate increases including the

1 information which must be provided. It also allows ratepayers to intervene and
2 challenge the evidence that is presented by the utility in support of their rate increase
3 request. However, if RRUI is not required to strictly adhere to the requirements of the
4 AAC and is not required to complete G Schedules to provide evidence as to the actual
5 cost of serving specific rate payer classes, intervenors (like the County herein) are
6 precluded from fully understanding and litigating the case on behalf of rate payers.
7 Article 15, Section 3 of the Arizona Constitution provides that “The corporation
8 commission shall have full power to, and shall, prescribe just and reasonable
9 classifications to be used and just and reasonable rates and charges to be made and
10 collected, by public service corporations within the state for service rendered
11 therein....” Commercial customers such as such as intervenors (District) have a right to
12 know if they are unfairly subsidizing other customer classes but they cannot know this
13 without the G schedules. The AAC sets forth the mechanisms by which all parties can
14 get a fair and equitable opportunity to litigate rate increase cases and serves to protect
15 against unjust and unreasonable rates. This cannot happen if RRUI is not required to
16 complete and file G Schedules.

17 Therefore, it is respectfully requested that the rate increase be denied for failure
18 of the utility to comply with codified filing requirements.

19 **B. If the Application is Not Denied Then it Should Be Delayed Until G**
20 **Schedules Are Filed and Litigated With All Implications On Rate**
Spread and Rate Design.

21 If the application is not denied in its entirety due to its deficiency resulting from
22 the failure to file G schedules RRUI should be directed to file the G schedules and their
23 calculations and implications on rate spread design should be fully
24 litigated. Application filing requirements are utilized in order to provide maximum
25 information by which to evaluate the rate increase being requested by a utility that has
26 the privilege of being a regulated monopoly. There are few businesses in this world that
27 are guaranteed a minimum rate of return on their money. However, RRUI has that
28 privilege and as such has a responsibility to provide all available and necessary

1 information to allow maximum evaluation of their rate spread and design. Ratepayers
2 who will bear the burden of the rate increase have the right to have all issues related to
3 rate spread and rate design litigated.

4 **C. If the Application is Not Delayed, Then Any New Rate Increase**
5 **Should Be Applied Proportionately Across All Rates and Charges.**

6 If the application is not delayed and ratepayers are not afforded the ability to
7 litigate RRUI's calculations then any new rate increase should be applied pro rata across
8 RRUI's applicable current rates and charges which were set with the benefit of G
9 schedules in RRUI's last rate case.

10 **III. COST OF CAPITAL AND RATE OF RETURN**

11 **A. The Testimony of Thomas Bourassa on Cost of Equity Should be**
12 **Given Little Weight**

13 Mr. Bourassa is a licensed C.P.A. (Tr. p. 50 at line 2). He does not have a degree
14 in economics (Tr. p. 54 at line 1). Nor does he hold a Certified Rate of Return
15 Analyst's (CRRA) certificate (Tr. p. 135 at lines 21-23). Mr. Bourassa misrepresents
16 the Capital Market Line ("CML") which he identifies in his testimony as various
17 classes of securities forming a line whose axes are Expected Rate of Return and Higher
18 Risk (Ex. A-2 page 5 the graph). Mr. Bourassa was unable to define what he
19 understood the X-axis represents (Tr. P. 69 at 7-16). The CML, according to the Nobel
20 Prize-winning economist William Sharpe, is actually formed from plotting various
21 portfolios of securities of which one, the efficient portfolio M, defines the CML along
22 with the risk-free rate (Ex. SCVUSD-5). The correct axes are expected return and
23 standard deviation of return (volatility). Mr. Bourassa is not a financial economist nor
24 does he have a CRRA degree, nor does he appear to have a command of the subject.
25 His recommendations should be given little weight on the limited topic of required
26 return on equity.
27
28

1 **B. The Authorized Return on Equity Should be Historically Low**
2 **Because Indications of Capital Costs are Near Historic Lows**

3 Numerous indicators present evidence that capital costs are near historic lows.
4 Mr. Bourassa testified that “the Fed lowered the federal funds target rate to near zero
5 during the depths of the 2007 to 2009 recession where it continues to stand at zero to .25
6 percent” (Tr. P. 60 at line 25 to p. 61 at line 3). The Federal Reserve intends to keep the
7 target federal funds rate at 0% to 0.25% for a considerable time even after its asset
8 purchase program ends and economic recovery strengthens (Tr. P. 61 at line 145 to p.
9 62 at line 1 and Ex. SCVUSD-2 page 2/26, third paragraph). The benchmark U.S.
10 Treasury note yield (constant maturity rate) is at historic lows since data first became
11 available in January 5, 1962 (Ex. SCVUSD-3). Even Mr. Bourassa recognizes that
12 “Historically, 10-year Treasuries are lower than in the past, the recent past, that being
13 before the recession” (Tr. 64 at lines 12-14). The average historical market risk
14 premium over long-term Treasury securities is 6.6% (Ex. A-2 p. 36 at 9-10). The 30-
15 year US Treasury bond was trading at a 3.151% yield on March 22, 2013 (Ex.
16 SCVUSD-8). Therefore, one estimate of the average stock’s return going forward is
17 about 9.8% (6.6% + 3.151%). However, Mr. Bourassa’s beta is 0.72 (Ex. A-2 p. 34 at
18 14) and significantly lower than the average stock’s beta (1.0 by definition) and RRUI
19 merits a 90 basis point reduction to an average 50/50 water utility to correct if one uses
20 the 100% equity capitalization. Therefore, it would be reasonable to award a 4.8%
21 utility risk premium (0.72X6.6%) plus 3.151% current long-term US Treasury yield for
22 a 7.9% cost of equity, reduced by 80 basis points to account for 100% equity (Ex. A-2
23 p. 41 at line 10) or a 7.1% return on equity if relying on Mr. Bourassa’s testimony.

24 **C. The Authorized Return on Equity Should be Low Because Stock**
25 **Market Volatility and Risk are at Lows Since January 2, 2008**

26 The Volatility Index “(VIX)”, is a measure of stock market volatility that is
27 acknowledged and understood in the industry (Tr. Page 73 at lines 15-25). The VIX
28 index is at lows since at least January 2, 2008 (Ex. SCVUSD-6). Relating the VIX to

1 the CML discussion above, one concludes that the expected return on market portfolio
2 M would also be low since January 2, 2008.

3 **D. Neither CIAC Nor AIAC Are Legitimate Sources of Financial Risk to**
4 **RRUI.**

5 Mr. Bourassa testified that CIAC and AIAC raise risk to RRUI (Ex. A-2 page 22
6 at 3-9). Yet, under cross examination Mr. Bourassa admitted that financial risk raises a
7 company's risk because of the requirement to make fixed principal and interest
8 payments regardless of sales or revenue or income before debt expense but that CIAC
9 has no fixed principal or interest payments (Tr. p. 75 at lines 20-23) and AIAC is
10 refunded contingent on developers reaching certain goals though they come in many
11 different varieties (Tr. p. 76 at lines 19-22) and might never get refunded 100% (Tr. p.
12 76 at lines 23-25). RRUI's CIAC and AIAC balances are not a source of addition
13 financial risk to RRUI and should not be a basis for a higher allowed ROE.

14 **E. Mr. Bourassa Over-Estimated the Dividend Yield in His DCF and**
15 **Therefore Over-Estimated His DCF Calculations**

16 The DCF requires an estimate of the expected dividend yield over the year
17 following the stock purchase ((CF_1/P_0) in Mr. Bourassa's terminology). Toward this
18 end, Mr. Bourassa first computed a current dividend yield (CF_0/P_0) and his expected
19 dividend yield (CF_1/P_0) was the current dividend yield CF_0/P_0 times one plus the
20 growth rate (Tr. p. 80 at lines 16-18). However, Mr. Bourassa's current dividend (CF_0)
21 is the dividend for the next year as reported by Value Line (Tr. page 81 at lines 5-7).
22 Therefore, Mr. Bourassa has taken the dividend expected over the next year and
23 multiplied them by 1 plus the dividend growth rate thereby biasing his dividend yield
24 upwards and his DCF estimates. Mr. Bourassa did not use forecasts of dividend growth
25 for the dividend growth rate but relied on analyst forecasts of earnings growth to
26 forecast dividend growth (Tr. p. 81 at lines 14-16).
27
28

1 **F. Mr. Bourassa's Capital Asset Pricing Model (CAPM) Suffers From a**
2 **Misestimated Current Market Risk Premium**

3 Mr. Bourassa calculated a "current" market risk premium using data that is more
4 than a year old (Tr. p. 82 at lines 10-11), certainly not current market data. His
5 calculations are self-evidently not current and merit no weight.

6 **G. The Small Company Risk Premium Should Be Given No Weight**

7 Mr. Bourassa recommends a small company risk premium (Ex. A-2 p. 42 at line
8 3 et seq.). He claims that "There is a great deal of empirical evidence that the firm size
9 phenomenon exists" and he cites Morningstar's Ibbotson SBBI 2012 Valuation
10 Yearbook (Chapter 7) (Ex. A-2 p. 42 at lines 5-6). Yet, the Morningstar publication
11 reports that "[V]irtually all of the small stock effect occurs in January, as the excess
12 outcomes for small company stocks are mostly negative in the other months of the
13 year...and the January effect seems to pervade all size groups...There is no generally
14 accepted explanation of the January effect. One potential explanation is, that it results
15 from year-end window dressing by portfolio managers" (Ex. A-12 p. 98 as listed,
16 second and third paragraphs). When questioned, Mr. Bourassa said that he was
17 "intimately familiar" with the Duff & Phelps Risk Premium Report (Tr. p. 83 at 24 to p.
18 84 at 1). The Duff and Phelps Risk Premium Report says:

19 Possible Explanations for the Greater Returns of Smaller
20 Companies.

21 Traditionally, small companies are believed to have greater
22 required rates of return than large companies because small
23 companies are inherently riskier. It is not clear, however,
24 whether this is due to size itself, or another factor closely
25 related to size. The qualification that Banz noted in 1981
26 remains pertinent today:

27 "It is not known whether size [as measured by market
28 capitalization—ed.] per se is responsible for the effect or
29 whether size is just a proxy for one or more true unknown
30 factors correlated with size."

31 Practitioners know that small firms measured in terms of
32 fundamental size measures such as assets or net income
33 have risk characteristics that differ from those of large firms.
34 For example, potential competitors can more easily enter the
35 "real" market (market for the goods and/or services offered

1 to customers) of the small firm and “take” the value that
2 the small firm has built. Large companies have more
3 resources to better adjust to competition and avoid distress
4 in economic slowdowns. Small firms undertake less
5 research and development and spend less on advertising
6 than large firms, giving them less control over product
7 demand and potential competition. Small firms have fewer
8 resources to fend off competition and redirect themselves
9 after changes in the market occur. (Ex. SCVUSD-7)

10 However, RRUI does not face competitors in CC&N territory (Tr. p. 83 at lines
11 3-6), so while an explanation for a small company risk premium might exist for a small
12 publicly traded company that is not a monopolist, such explanation does not carry over
13 to a regulated water utility with an exclusive CC&N.

14 So, in summary, the small company risk premium is really a January effect,
15 pervades all size groups, is negative in other months for small companies, might be
16 related to portfolio manager window dressing or to competition. The lack of evidence
17 and its shakiness makes Mr. Bourassa’s small company risk premium particularly
18 unreliable and it should be rejected.

19 **H. Mr. Bourassa’s CAPM is Biased Upwards Due to His Reliance on**
20 **Inaccurate Interest Rate Forecasts**

21 Mr. Bourassa relied on forecasts of the long-term U.S. Treasury rate for his direct
22 and rejoinder CAPM analyses (Tr. p. 85 at lines 7-8 and lines 21-23) and as shown in
23 his Exhibit(s) D-4.10. The forecasts used in his direct testimony forecasts were 3.8
24 percent and 3.7 percent from Blue Chip and Value Line, respectively (Tr. p. 85 at lines
25 10-11). However, actual market-based 30-year US Treasury rates were 3.151% as
26 defined by the market at the time of the hearing (Ex. SCVUSD-8). The forecasts on
27 which Mr. Bourassa relied were made by merely two forecasting services while market
28 rates are defined by the market with its panoply of transactions. Observable market
rates should be relied on in determining a CAPM cost of equity analysis. The forecasts
used by Mr. Bourassa happened to significantly bias his CAPM estimate upward.

1 **I. Staff's Economic Assessment Adjustment Should be Rejected**

2 Staff's witness James Cassidy proposes an "Economic Assessment Adjustment"
3 of 60 basis points (Ex. S-2 p. 3 at line 3 and p. 36 at lines 1-6). Mr. Cassidy testifies
4 that "[I]n consideration of the relatively uncertain status of the economy and the market
5 that currently exists, Staff is proposing an Economic Assessment Adjustment to the cost
6 of equity. In this case, Staff recommends a 60 basis point (0.6 percent) upward
7 Economic Assessment Adjustment" (Ex. S-2 p. 36 at lines 1-6). The adjustment is not
8 based on any treatise or peer-reviewed journal but rather Mr. Cassidy's verbal testimony
9 reveals that the ACC Utilities Director simply ordered it (Tr. p. 223 at 23 to p. 224 at
10 line 9). Mr. Cassidy believes in the strong form of the efficient markets hypothesis (Tr.
11 p. 219 at lines 12-19). As an adherent to the strong efficient market hypothesis, he
12 would have to say that stock prices reflect investors' expectations of the uncertainty of
13 interest rates, stock earnings and dividends, market volatility, and general economic
14 conditions. (Tr. p. 223 at lines 11-16). Therefore, to the extent that stock prices were
15 used in the DCF or CAPM beta estimates those prices already reflect expectations of
16 uncertainty and therefore the uncertain status of the economy and the market that
17 currently exists is already factored into market data. No Economic Assessment
18 Adjustment as ordered by the ACC Utilities Division Director is warranted.

19 **J. The Record Logically Supports, and the Commission Should Adopt,
20 a Capital Structure of 50% Debt, 50% Equity**

21 RRUI's application proposed an 80% equity/20% debt capital structure
22 consistent with its previous commitment and the ruling in its last rate case (Ex. A-2 p. 2
23 at lines 13-19 and Ex. A-2, Schedule D-1). At the open meeting for its last rate case
24 RRUI committed to file a financing application with the Commission in 2011, wherein
25 debt equivalent to 20 percent of its capital structure would be infused into the Company
26 by Rio Rico's parent company (Algonquin Power and Utilities Corporation), with the
27 debt having a cost of 5.7 percent (Ex. Staff-2 p. 6 at 12-17). RRUI changed its capital
28 structure position in rejoinder testimony to propose a 100% equity capital structure (Ex.

1 A-6 p. 2 at lines 23-26). RRUI's witness Bourassa applied a -90 basis point Hamada
2 adjustment to align the cost of equity estimates from an approximately 50% equity/50%
3 debt proxy group capital structure to RRUI's 100% equity recommended capital
4 structure (Ex. A-6, Schedule D-4.1). RUCO's proxy group capital structure is 45.70%
5 equity (RUCO-1 direct testimony of William Rigsby p. 56 at line 23). RUCO witness
6 William Rigsby decided to recommend a 100% equity capital structure while Staff's
7 proxy group capital structure has 48.4% equity (Ex. S-1 direct testimony of John
8 Cassidy Schedule JAC-4). None of the utilities in the cited schedules have 100%
9 equity. For water companies in Arizona of RRUI's size evidence shows that Far West
10 Water in Yuma has somewhere close to around 85 percent debt (Tr. p. 203 at lines 19-
11 20). Clearly, 100% equity is out of the norm and inefficient. Staff did no investigation
12 whether Algonquin Power Utilities Corp. had issued debt and infused that debt as
13 "equity" onto RRUI's books (Tr. p. 227 at line 25 to p. 228 at line 4). The Commission
14 should simply adopt the industry norm for capital structure of approximately 50%
15 equity and apply an appropriately-calculated proxy group average cost of equity
16 estimate for the allowed return on equity. The approach of using the proxy group
17 capital structure and cost of equity estimate is the most transparent approach to
18 coordinating the cost of equity and capital structure and it minimizes judgment and
19 miscalculation from the Hamada adjustment.

20 **K. The Cost of Debt Should be 4.13%**

21 RRUI proposed a 5.7% cost of debt which was simply the cost of debt arrived at
22 in the last rate case (Ex. A-2 p. 2 at lines 20-22) and, therefore, it has no relationship to
23 current capital market conditions. RUCO proposed a 4.13% cost of debt (Ex. RUCO-1
24 direct testimony of William Rigsby p. 6 at lines 5-10, p. 55 at lines 5-8, and attachment
25 D). RUCO's cost of debt is based on the current yield on a Baa/BBB-rated utility bond
26 and it takes into account current capital market conditions.

1 **L. The Allowed Return on Equity Should Be No Greater than 8.0%**

2 RUCO witness William Rigsby proposed an 8.25% allowed return on equity
3 based on his cost of equity estimate increased by an arbitrary 25 basis points for “any
4 unique business risks that the company may be facing” (Tr. p. 150 at lines 16-19) and an
5 arbitrary (termed “conservative”) 50 basis point reduction for financial risk (Tr. p. 152
6 at lines 5-13) though it was not based on any financial model. The average of Mr.
7 Rigsby’s actual cost of equity estimates stripped of arbitrary adjustments is 7.31%
8 (RUCO-2 Surrebuttal testimony of William Rigsby schedule WAR-1, p. 2/2). Staff’s
9 average cost of equity estimate is 8.5% (S-2 Surrebuttal Testimony of John Cassidy
10 schedule JAC-3) before the arbitrarily ordered “Economic Assessment Adjustment.”
11 Mr. Bourassa’s estimates are inflated and his lack of qualifications or CRRA
12 certification in the area renders his estimates of little value. The average of RUCO’s
13 and Staff’s actual cost of equity estimates is, therefore, 7.9% $((.0731+.085)/2) = 7.9\%$.
14 The most reliable available evidence in this case supports an allowed return on equity
15 not exceeding 8.0%.

16 **M. The Allowed Rate of Return Should Be 6.07%**

17 The mathematical result of a 50/50 capital structure consistent with the water
18 utility sample evidence, a 4.13% cost of debt as the only current debt rate evidence
19 provided in the case, and an 8% allowed return on equity results in a 6.07% allowed rate
20 of return.

21 **N. If The Industry Standard Capital Structure of 50% Debt/50%
22 Equity is Not Ordered, Then RRUI’s Proposed 100% Equity
23 Capital Structure Should Be Rejected in Favor of RRUI’s
24 Originally Proposed 80/20 Capital Structure.**

25 RRUI was ordered, and agreed, to begin infusing debt into its capital structure in
26 its last rate case. RRUI did not fulfill that commitment to the Commission. In this case
27 RRUI originally complied with that directive for purposes of setting rates by
28 recommending an 80/20 capital structure. The Commission in this case should adopt
that same position if the more evidentiarily supported 50% equity/50% debt capital

1 structure is not adopted. The cost of debt supported in the record is 4.13% (see brief
2 point above). If an 80% equity/20% debt capital structure is authorized , then the
3 allowed rate of return should be 7.226% based on an 8% maximum allowed return on
4 equity and the 4.13% cost of debt articulated above ($20\% \times 4.13\% + 80\% \times 8.0\% =$
5 7.226%).

6 The remaining issue is how the Commission adjusts cost of equity estimates
7 downwards to correct for the fact that 80% equity is far less risky than the industry
8 average 50%. This last issue lacks clear evidence in this case, making this finding more
9 difficult than simply adopting the industry averages for capital structure and cost of
10 equity.

11 **IV. THE EMPLOYEE BENEFIT ADJUSTMENT SHOULD BE DENIED**

12 RRUI pro forma increases its expenses by \$32,020 for employee benefits
13 expense (Tr p. 287 at line 8 et seq.) pursuant to an alleged employee benefit plan.
14 Additionally, Avondale Corporate Office allocations are pro forma included with
15 \$8,786 for water and \$3,896 for wastewater (Tr p. 288 at lines 14-16) pursuant to the
16 same alleged benefit plan. This pro forma expense was not incurred in the test year
17 ended February 2012. The expense was not otherwise incurred during the rest of 2012.
18 The expense will not be incurred in 2013. The alleged benefit plan didn't even begin
19 until January 1, 2013.

20 RRUI was unable to provide any information or documentation supporting these
21 alleged expenses as they relate to RRUI. They provided a spread sheet listing employee
22 names and the amount of the alleged employee benefit. (Ex. RUCO-3). However, they
23 provided no supporting documentation for how they arrived at the alleged figures.
24 When specifically asked about this RRUI was only able to produce a contract for
25 services between Liberty Energy Utilities and the Cottonwood group for pension
26 consulting services. (Tr. P. 278 at line 14 et. seq.). Liberty Energy Utilities is a
27 separate legal entity from Liberty Water the parent company of RRUI. RRUI was
28 unable to produce any evidence that the Liberty Energy Utilities Contract with the

1 Cottonwood Group applied to or included RRUI. RRUI is a separate legal entity under
2 Liberty Water and separate organizationally from Liberty Energy Utilities. (Ex. Santa
3 Cruz County 5). RRUI also failed to produce any plan by the Cottonwood Group
4 recommending employee benefit payments to the individuals claimed in RRUI's pro
5 forma adjustment (Tr. P. 291 at line 15-16).

6 The employee benefit pro forma adjustment fails the known and measurable
7 standard. First, it is a claimed expense for out of test year which is not auditable
8 because it still has not been incurred. Second, no third-party documentation exists for
9 its support because no evidence links the Cottonwood Group's services agreement with
10 Liberty Energy Utilities to RRUI's internal Excel spreadsheet. A classic example of
11 the "known and measurable" standard is a postal commission vote. When the postal
12 commission votes for a postage increase it is precisely known and measureable and it
13 can be reasonably applied to test year postage expenses. RRUI's employee benefits pro
14 forma adjustment is alleged and undocumented. It is not supported by audit trail nor
15 any other documentation. Therefore, these undocumented out of test year employee
16 benefit pro forma adjustments should be disallowed.

17 18 **V. CONCLUSION**

19 Based on the record in this proceeding and for the reasons stated in this Closing
20 Brief, Intervenor submit that the Commission should deny RRUI's Application entirely
21 for RRUI's failure to comply with AAC governing statutory provisions requiring the
22 filing of G Schedules in all Class A and B utility rate adjustment proceedings. Article
23 15, Section 3 of the Arizona Constitution provides that "The corporation commission
24 shall have full power to, and shall, prescribe just and reasonable classifications to be
25 used and just and reasonable rates and charges to be made and collected, by public
26 service corporations within the state for service rendered therein...." The AAC sets
27 parameters under which regulated utilities are permitted to request rate increases,
28 including the information which must be provided. The AAC requires RRUI and other

1 Class B utilities to file G Schedules as part of its utility rate adjustment proceedings. If
2 RRUI is not required to strictly adhere to the requirements of the AAC and is not
3 required to complete G Schedules to provide evidence as to the actual cost of serving
4 specific rate payer classes, ratepayers and Intervenor are precluded from fully
5 understanding and litigating the case on behalf of rate payers.

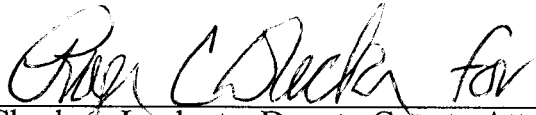
6 Alternatively, if the Application is not denied, then resolution should be delayed
7 until G Schedules are filed, and the schedules and their calculations and implications on
8 rate spread design fully litigated.

9 In the final alternative, Intervenor submit that the mathematical result of a 50/50
10 capital structure consistent with the water utility sample evidence, a 4.13% cost of debt
11 as the only current debt rate evidence provided in the case, and an 8% allowed return on
12 equity results in a 6.07% allowed rate of return. Intervenor ask that a rate of return of
13 6.07% percent be adopted.

14 RESPECTFULLY SUBMITTED this 3rd day of May, 2013.

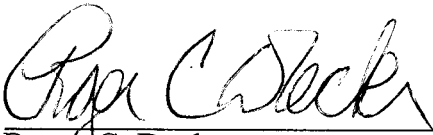
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16
17 By


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5 Copy of the foregoing mailed/emailed
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